

Message Text

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ACTION NEA-12

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TO SECSTATE WASHDC 6319

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY JIDDA

AMEMBASSY RANGOON

AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: ENRG, IN

SUBJ: INDIA'S OIL POLICY -- CONTINUING CHANGES AND OUTLOOK

REF: A) NEW DELHI 7991; B) BOMBAY 1496; C) BOMBAY 1528

BEGIN SUMMARY. WE OFFER AN UPDATED ANALYSIS OF INDIA'S POSITION IN OIL MATTERS, HIGHLIGHTING GOI ATTEMPTS TO DEVELOP AN EFFECTIVE OIL POLICY. THE GOVERNMENT'S PRINCIPAL GOAL IN OIL CONTINUES TO BE THE ELIMINATION OF THE PRIVATE REFINING COMPANIES IN INDIA. TOWARD THIS END, THE GOI HAS EMBARKED ON SEVERAL NEW OIL EXPLORATION PROGRAMS (IN INDIA AND IRAQ). THE RESULTS WILL NOT, HOWEVER, BE KNOWN FOR A NUMBER OF YEARS AND EXPENDITURES MAY REACH MAGNITUDES NEVER BEFORE EXPERIENCED WITHIN LIMITED OFFICIAL USE

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A SINGLE INDUSTRY IN INDIA. MEANWHILE, WE SEE NO IMMINENT OR

PRECIPITOUS TAKEOVER OF PRIVATE COMPANIES, NO LARGE-QUANTITY CRUDE OIL PURCHASES BY INDIA FROM NEW SOURCES (DESPITE RECENT SENSATIONALIST PRESS ACCOUNTS TO THE CONTRARY), AND NO POSSIBILITIES FOR SIGNIFICANT FOREIGN EXCHANGE SAVINGS IN OIL AT LEAST DURING THE REMAINDER OF THIS DECADE. END SUMMARY.

1. IN REF A, WE DESCRIBED THE GOI'S CURRENTLY CHANGING OIL POLICY. WE NOTED THAT THE GOVERNMENT'S EMERGING PLANS IN OIL APPEAR FOR THE FIRST TIME TO PLACE EQUALLY HIGH PRIORITIES ON A PROGRAMMED TAKEOVER OF THE PRIVATE REFINING COMPANIES (BURMAH-SHELL, CALTEX AND ESSO), THE PURCHASE OF ALTERNATE SUPPLIES OF CRUDE FOR IMPORT, AND ON OIL EXPLORATION IN INDIA AND IRAQ. WE SUGGESTED THAT THE GOI WAS ATTEMPTING TO ADJUST ITS POLICY IN OIL WITHOUT DISRUPTING ITS OVERALL SOCIALIST-ORIENTED INDUSTRIAL POLICY.

2. WHILE GOI PLEDGES OF AN "EARLY NATIONALIZATION" OF THESE FIRMS ARE NOT NEW, RECENT DEVELOPMENTS (REFS B AND C) ATTEST TO INCREASING PRESSURES BY THE GOVERNMENT ON EACH COMPANY. YET, A SUCCESSFUL TAKEOVER -- BY OUTRIGHT PURCHASE, MAJORITY SHARE ACQUISITION, OR SEQUESTRATION -- REQUIRES THAT THE GOI FIRST OBTAIN ADEQUATE QUANTITIES OF CRUDE OIL; EITHER FROM "NEW SOURCES" OR THROUGH NEWLY-NEGOTIATED SUPPLY CONTRACTS WITH (SAY) BURMAH-SHELL, CALTEX AND ESSO. THE GOI'S EFFORTS TO PURCHASE LARGE VOLUMES OF CRUDE FROM ALTERNATE PRODUCERS IN THE PERSIAN GULF, AFRICA, AND ELSEWHERE, HAVE BEEN SINGULARLY UNSUCCESSFUL TO DATE. THUS, TO FORESTALL SUPPLY CONTRACT (OR OTHER) NEGOTIATIONS WITH THE PRIVATE COMPANIES, THE GOI HAS TURNED VIGOROUSLY TOWARD OIL EXPLORATION OFF THE COASTS OF INDIA AND IN ONSHORE CONCESSIONS IN IRAQ. CLEARLY, A GOI-OWNED OR CONTROLLED OIL DISCOVERY OF ANY MAGNITUDE, AT ANY LOCATION, WOULD INDEED EXPOSE THE PRIVATE COMPANIES' ACHILLES HEEL AND PLACE THE GOVERNMENT IN THE MORE FAVORABLE NEGOTIATING POSITION IT IS SO DESPERATELY SEEKING.

3. MEANWHILE, INDIA'S "ASSURED" CRUDE SUPPLY POSITION AND THE COUNTRY'S REFINING CAPACITY PROJECTIONS THROUGH 1980 ARE WORTHY OF NOTE. TRADITIONAL SOURCES OF CRUDE OIL (IN DESCENDING ORDER LIMITED OFFICIAL USE

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OF IMPORTANCE) ARE IRAN, INDIAN DOMESTIC CRUDE (ASSAM AND GUJARAT) AND SAUDI ARABIA. IN 1973, THESE SOURCES WILL PROVIDE INDIA'S REFINERIES WITH ABOUT 138.1 MILLION BARRELS OF CRUDE, OR 87 PERCENT OF PLANNED REFINERY THROUGHPUT. THE REMAINDER, 20.2 MILLION BARRELS, WILL ORIGINATE FROM "NEW SOURCES"; IRAQ (CRUDE FORMERLY INTENDED FOR EXPORT TO THE USSR, BUT RECENTLY ALLOTTED TO INDIA VIA AN AD HOC AGREEMENT) AND SAUDI ARABIA (PARTICIPATION CRUDE). INDICATIONS ARE THAT

THE NEW-SOURCE CRUDES WILL NOT NOTICEABLY ALTER THE IMPORT PATTERNS OF THE PRIVATE SECTOR REFINING COMPANIES, OR REDUCE THEIR CRUDE THROUGHPUTS. THE GOI MAY BE EXPECTED TO PERMIT EACH COMPANY TO IMPORT SUFFICIENT CRUDE FROM ITS OWN SOURCES TO AT LEAST MEET THAT FIRM'S LICENSED LEVEL OF OPERATION. ADDITIONAL QUANTITIES OF GOI-PURCHASED CRUDE WILL BE OFFERED TO THE PRIVATE COMPANIES, TO BE REFINED "FOR A FEE", AS THIS CRUDE BECOMES AVAILABLE -- TO RAISE PRIVATE SECTOR CRUDE THROUGHPUTS TO INSTALLED CAPACITIES. IN THE EVENT THAT DELIVERIES OF GOI-PURCHASED CRUDE SHOULD LAG BEHIND PLANNED SCHEDULES, THE GOVERNMENT REPORTEDLY WILL AUTHORIZE SUPPLEMENTAL PRIVATE SECTOR IMPORTS TO ACHIEVE THE INSTALLED CAPACITY THROUGHPUTS DESIRED FOR EACH REFINERY.

4. THE GOI HAS LEARNED THAT NEITHER ESTABLISHED SUPPLIER COUNTRIES NOR NEW SOURCES HAVE AVAILABLE LARGE QUANTITIES OF UNCOMMITTED, SURPLUS, CRUDES AT THIS TIME AT ANY PRICE, AND THAT WORLD MARKET FORECASTS INDICATE A CONTINUING TIGHT SUPPLY SITUATION DURING THE NEXT DECADE. INSTEAD OF IMPORTANT ALTERNATE PURCHASES, INDIA HAS HAD TO THEREFORE SETTLE FOR THE MORE LIMITED QUANTITIES OF HIGH COST PARTICIPATION CRUDE FROM SAUDI ARABIA (7.9 MILLION BARRELS ANNUALLY FOR THREE YEARS ONLY, BEGINNING IN 1973), LIBYAN CRUDE (AT 14.5 MILLION BARRELS ANNUALLY DURING 1974 AND 1975 ONLY), AND IRAQI CRUDE (AT 12.3 AND 13.1 MILLION BARRELS ANNUALLY DURING 1973 AND 1974, 36.3 AND 50.8 MILLION BARRELS DURING 1976 AND 1977 RESPECTIVELY, AND 72.5 MILLION BARRELS ANNUALLY DURING 1978-1987). TRANSLATED, THIS MEANS THAT INDIA'S "ASSURED" SUPPLIES FROM NEW SOURCES MAY BE EXPECTED TO INCREASE FROM 20.2 MILLION BARRELS IN 1973 TO 72.5 MILLION BARRELS IN 1980 WHILE REFINERY CRUDE THROUGHPUT IS TO BE EXPANDED FROM 158.3 TO 243.0 MILLION BARRELS ANNUALLY. BARRING UNFORESEEN LIMITED OFFICIAL USE

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DEVELOPMENTS, THE PRIVATE SECTOR IMPORTERS WILL THUS BE NEEDED IN INDIA IN ONE FORM OR ANOTHER DURING 1973-1980.

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ACTION NEA-12

INFO OCT-01 EA-11 ADP-00 SCEM-02 TRSE-00 INT-08 EB-11

COME-00 CIAE-00 DODE-00 INR-10 NSAE-00 PA-03 RSC-01

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INFO AMCONSUL BOMBAY

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(COMMENT: ANNOUNCEMENTS OF INDIA'S PLANNED PURCHASES OF LIBYAN CRUDE DURING 1974-75 HAVE THUS FAR AVOIDED ANY MENTION OF A PRECISE OILFIELD OR CONCESSION SOURCE -- E.G. NELSON BUNKER HUNT, OCCIDENTAL, OR OTHER. OUR DISCREET INQUIRIES ON THIS SUBJECT INDICATE ONLY THAT A SPECIFIC SOURCE AREA MAY NOT, IN FACT, YET BE DETERMINED. WE WILL, HOWEVER, CONTINUE TO PROBE INTO THIS SUBJECT. END COMMENT.)

5. TO SUMMARIZE, THE GOI HAS BELATEDLY CHOSEN THE ROUTE THAT WOULD BEST HAVE BEEN ACCOMPLISHED SOME YEARS AGO -- ACCELERATED EXPLORATION PROGRAMS (ONSHORE AND OFFSHORE) WITHIN ITS OWN BOUNDARIES, EXPLORATION CONCESSIONS AND PROFIT-SHARING CONTRACTS ELSEWHERE (IRAQ, IRAN, AND POSSIBLY OTHERS LATER), AND, FINALLY, A MORE PRACTICAL (ALBEIT RELUCTANT AND TEMPORARY) LIMITED OFFICIAL USE

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ACCEPTANCE OF THE FOREIGN PRIVATE OIL REFINING COMPANIES AS SIGNIFICANT CONTRIBUTORS TO THE COUNTRY'S ECONOMY AT THIS TIME. GOI OFFICIALS HAVE NONETHELESS RECENTLY PUBLICLY REITERATED THAHTHE PRIVATE OIL COMPANIES IN INDIA "MUST GO". IN REALITY, THE ON-GOING REFINERY AGREEMENTS OF BURMAH-SHELL, CALTEX AND ESSO WILL TERMINATE DURING 1979-1982 (VARIABLE ACCORDING

TO INDIVIDUAL AGREEMENT). SOME FORM OF DECISION ON THE AGREEMENTS WILL BE REQUIRED AT THAT POINT, BUT CURRENTLY THE GOI APPEARS TO BE METHODICALLY PROLONGING ITS "REVIEW" OF AN EVENTUAL "TAKEOVER" OF EACH FIRM; TO ATTEMPT TO IMPROVE ITS BARGAINING POSITION AND TO THUS HASTEN THE PRIVATE COMPANIES' DEMISE IN INDIA. EQUITY SHARE NEGOTIATIONS BETWEEN ESSO AND THE GOI ARE SIMMERING ALONG AT A SLOW PACE, BURMAH-SHELL IS AWAITING THE OUTCOME OF THESE DISCUSSIONS, AND CALTEX IS CONTINUING TO RETRENCH (REF B). WHATEVER THE ULTIMATE SCHEME MAY BE, THE PRIVATE OIL SECTOR IMAGE OF 1980 IS LIKELY TO BE CONSIDERABLY DIFFERENT THAN THAT WHICH EXISTS TODAY. INDIA WILL ALSO HAVE EXPENDED STAGGERING SUMS OF FOREIGN EXCHANGE IN OIL EXPLORATION (PETROLEUM MINISTRY ESTIMATE: \$700.0 MILLION BY 1980) IN ITS ATTEMPT TO ACHIEVE INDEPENDENCE FROM THE HATED "OIL CARTELS".
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